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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 000612

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SUBJECT: FINANCE MINISTER SALAMI PUTS A GOOD SPIN ON HIS COMMITMENT TO REFORM

REF: SANAA 328

Classified By: Amb. Thomas Krajewski for reasons 1.4 (b. and d.)

1. (C) Summary and comment: In a cordial and open meeting on March 13 with Deputy Prime Minister and Minister of Finance Alawi al-Salami, Ambassador highlighted U.S. efforts to support decentralization, urged the ROYG to take serious anti-corruption and transparency efforts and encouraged Yemen to take concrete steps to improve its investment climate. Salami was quick to assure the Ambassador he and his Ministry are ready and willing to support USG goals. Characterizing himself as a reformer, Salami has placed himself on the side of Ba Jammal -- behind the government's reform plans, but he is still in the sites of a skeptical parliamentary opposition, which reportedly continues to talk of unseating both men. (Reftel). End summary and comment.

Decentralization: We're putting a
Finance Office in Every District

2. (C) Claiming that the Ministry of Finance has been a keen supporter of decentralization since the enactment of the 2001 local council law, Salami said his ministry is training local council officials to better manage budgets. Salami explained that while the local council law compares favorably to those of their Arab neighbors, Yemen's implementation and enforcement should be enhanced. A new plan to manage local government expenditures, he noted, will be completed shortly. In defense of his ministry, Salami said that local councils have not been aggressive enough in pursuing their own sources of income and rely too heavily on disbursement from central authorities. According to Salami, the central budget has not been expanded to provide local councils with additional resources. Salami further complained that the Ministry of Finance now staffs accounting offices in every district to handle its new funding mandate. But, he explained, he authorized and funded the expansion to support decentralization goals. (Comment: The Ministry of Finance's expanded presence through new offices to control local council budget disbursement is widely considered an effort to assert control over the councils and therefore, a setback to decentralization. End comment.)

Ministry of Finance Leads (Anti)-Corruption Efforts

3. (C) Salami affirmed the ROYG's commitment to fighting corruption, adding that it was he who signed the UN Convention on Anti-Corruption. Salami said the cabinet approved the convention, and it is now before Parliament, along with a letter from him urging its immediate passage. (Comment: Post has seen little evidence of a "push" to ratify the convention. End comment). Ambassador underscored that Yemen must take, as part of its MCC Threshold program proposal, concrete, tangible steps to fight corruption and improve transparency. Salami said that studies have proven that Yemen has sound laws governing tendering, but lacks the ability to implement regulations and follow the procedures. Salami announced that a two-year study authored by Crown Agents on the ROYG's tendering procedures will be published soon. The MOF plans to adopt the recommended steps to improve its tendering process.

Financial Infrastructure Reform

4. (C) In a likely bid to stave off a message on the need for improved fiscal accountability, the DPM volunteered that he and his Ministry were working with the Dutch and the World Bank to design a workshop focusing on ways to improve Yemen's budget classification system. (Note: Due in large part to inaction by the MOF, attempts to improve Yemen's fiscal accounting have languished for five years. Thom Sprenger, of the Dutch Embassy, told Pol/Econ Deputy that MOF's agreement to hold the workshop constituted a major victory for the World Bank and indicates Salami might be yielding to donor pressure. End note). Salami quickly agreed with

Ambassador's point that the Central Bank of Yemen (CBY) should wean itself away from commercial business, but contended that until his ministry can operate more like a treasury department, the CBY must continue to perform commercial bank functions. Salami said his eventual goal was the creation of necessary financial infrastructure for Yemen to have a stock market, but noted that they still had to improve the banking system and the transparency of Yemen's private sector. (Note: The stock market is a pet project of the Ministry, even though most experts believe it will be years, if ever, before Yemen is ready for advanced financial systems. End note).

Three Bids for Aden Port

15. (C) Ambassador raised concerns over the soundness of the Aden Port Tender. Acknowledging "interference in the process," Salami announced that only three companies submitted final bids for the Aden Port Management: Kuwait and Gulf League Co., Manila based, ECTS and Dubai Ports International. Deputy Finance Minister, Ahmed Ghalib, added that the decision could come as early as the week of March 19. Salami confirmed that World Bank and Dutch advisors were involved in the tendering process to assure international investors that the process is sound. Salami pointed to Post's updated Investment Climate Statement that was recently received negatively by some Yemeni officials in the press, "I am not criticizing it. I agree completely," he said. Salami closed the meeting saying Yemen's future lay with the private sector and agreed that Yemen must continue to improve its investment climate.

Comment:

16. (C) Comment: Salami was in rare form, laughing, nodding and smiling at the Ambassador, as opposed to his normal, stoic self. By agreeing to fire close and disliked aides (Reftel), Salami may have weathered another political battle. Salami is a survivor and may have ceded just enough control to maintain his very powerful position. Salami's ability to frustrate everyone from World Bank officials to Yemeni Ministers, however, could still lead to his ouster. Liberal minded Yemenis scoff at Salami's painting himself as a crusader against corruption and point to his extravagant houses as proof of malfeasance. Yet, any serious anti-corruption effort must work with the Ministry of Finance and Post will seek to capitalize on his willingness to work with us, for now. End comment.
Krajeski